



GRAY DAVIS, Gov  
MARY D. NICHOLS, Sec

November 5, 2002

Commissioner James Boyd  
Chairman, Integrated Energy Policy Report Committee  
California Energy Commission

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RE: California Resources Agency Comment on the Scope of the California Energy Commission's Integrated Energy Policy Report (Docket No. 02-IEP-01)

Dear Commissioner Boyd:

The California Resources Agency appreciates the opportunity to recommend issues and subject areas for your consideration as the Energy Commission begins the scoping process for the first Integrated Energy Policy Report (Policy Report) to the Governor and Legislature, as required by Senate Bill 1389. I applaud your stated intent to work cooperatively with sister state agencies on complex energy policy issues. The Resources Agency has reviewed the Energy Commission's Staff Proposal for Consideration of scoping issues and the legislation. We are also familiar with the Environmental Performance Report of the State's Electrical Generation System (Environmental Report).

The Resources Agency encourages the Energy Commission to examine the many impacts to California's natural resources from energy production, transmission and use. It would be most helpful to our agency if the Energy Commission could use its expertise to highlight areas where the energy-environment balance is poorly understood. We welcome the opportunity to review policy recommendations where the energy-environmental balance can be altered to improve environmental quality without unduly affecting energy supplies or costs.

One of the Resources Agency's policy initiatives is to understand and minimize impacts to natural resources from the operation of hydroelectric facilities. California's hydroelectric system is the second largest in the country, and is an important part of our state's electricity supply system. The Energy Commission's Environmental Report (July 2001) identified significant, ongoing impacts to rivers, streams, fisheries and water quality from current hydropower operations. The Energy Commission's finding that impacts from hydropower operations have yet to be mitigated to the environmental standards required for other power generation facilities is important information for environmental scientists and policy makers.

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The Resources Agency encourages the Energy Commission to work in consultation with agencies from the California Hydro Team to more fully document impacts to fisheries and water quality from the state's entire hydropower system. This interagency team is coordinated by the Resources Agency, and includes the Department of Fish and Game, Department of Water Resources, and the State Water Resources Control Board.

In the Resources Agency's experience, natural resource and water quality agencies often do not have the staff capacity or training to understand the energy and economic tradeoffs associated with hydropower operations and licensing. The Energy Commission can add tremendous value to the state's understanding of what the hydro energy-environment balance could, or should, look like now, in the near future, and over the next 25 years. This is a critical issue at the project level, and at the national policy level, as evidenced by Federal Energy Regulatory Commission reports, policies, and the current rulemaking on hydroelectric licensing procedures; the consistent message is that environmental quality improvement for rivers and fisheries costs too much in foregone energy production and money.

In addition to project-level impacts, powerful external events related to energy market deregulation, court decisions, national legislation and federal regulatory changes also affect California's ability to manage and minimize hydropower system effects on natural resources. Examples include attempts to auction or divest entire hydropower systems and their land base, the bankruptcy of our largest utility, and the current surge in federal relicensing of more than 40% of our state's hydropower facilities. These economic and legal forces have the potential to impact environmental quality in rivers, streams and watershed lands throughout the state.

Therefore, the Resources Agency encourages the Energy Commission to examine the following issues:

- **Economics of Hydropower Operations and Licensing:** Hydropower producers express concern that environmental mitigation could render many projects non-economic, yet hydropower production costs are believed to be the lowest of any generation technology. Are the economics of hydroelectric operation, management and licensing substantially different than for other power generation technologies?
- **Trade-Offs Between Instream Flow Changes and Energy Production:** To what extent can instream flows in different river reaches be increased without severely compromising energy production or economics? The current surge in hydropower licensing raises this question on rivers throughout California, but state agencies responsible for water quality, fisheries and recreation generally do not have expertise in energy issues. Moreover, there will be increasing demands on California rivers in the future for water supply, recreation and environmental restoration. Will future changes in electricity supply sources and technologies reduce the need for current levels of hydroelectric production?

- **Restoring California's Anadromous Fisheries:** Restoration of California's endangered salmon and steelhead trout is an important policy goal. Dams associated with hydropower can impede fisheries restoration because they may block fish passage or restrict instream flows in bypass reaches. In some cases, the simplest remedy could be to decommission a dam. Given the increase in electricity supplies since the power crisis, is it appropriate to assume that select hydropower projects and dams can be eliminated or diminished without jeopardizing electricity supply reliability or cost?

Thank you for soliciting our views and recommendations as the Energy Commission begins identifying key issues and policy recommendations for the Integrated Energy Policy Report. Should you have any questions, please contact Margret J. Kim at 916-653-1548.

Yours sincerely,



Mary D. Nichols  
Secretary for Resources

cc: Chairman William Keese  
Commissioner John Geesman  
Commissioner Robert Pernel  
Commissioner Arthur Rosenfeld  
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